

**Report on Examination**  
**of**  
**Health First Insurance, Inc.**

**Rockledge, Florida**

**as of**

**December 31, 2013**



**FLORIDA OFFICE OF  
INSURANCE REGULATION**

Kevin M. McCarty, Commissioner  
Florida Office of Insurance Regulation  
Tallahassee, Florida

Dear Sir:

In accordance with Section 624.316, Florida Statutes, and the *Financial Condition Examiners Handbook* of the National Association of Insurance Commissioners, we have completed a financial condition examination of Health First Insurance, Inc. as of December 31, 2013. Our report on the examination follows.

Florida Office of Insurance Regulation  
August 13, 2014

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## SCOPE OF EXAMINATION

We have completed a financial condition examination of Health First Insurance, Inc. (the “Company”), a single-state insurer domiciled in Florida. Our examination covered the period of January 1, 2013 through December 31, 2013 and took place primarily in the Company’s Rockledge, Florida office. The last financial condition examination of the Company by the Florida Office of Insurance Regulation (the “Office”) was as of December 31, 2012.

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook*. The Handbook required that we plan and perform our examination to evaluate the financial condition and identify prospective risks of the Company. It required that we do so by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. Our examination included assessing the principles used and significant estimates made by management. It also included evaluating overall financial statement presentation and management’s compliance with statutory accounting principles and NAIC annual statement instructions when applicable to domestic state regulations. All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

## **SUMMARY OF SIGNIFICANT FINDINGS**

The examination resulted in findings that the minutes of the Company's board of directors meetings did not indicate whether the Company's appointed actuary had reported to the Board or Audit Committee on items within the scope of the actuarial opinion; the Office was not notified that the audit committee of Health First, Inc. served as the Company's audit committee; and the Company overstated the amounts of certain assets and understated the amount of a liability in its 2013 annual statement.

## **COMPANY HISTORY**

The Company was incorporated in Florida on September 7, 2011 and licensed by the Office as an insurer on October 27, 2011. It was authorized by the State of Florida to operate as a life and health insurer in accordance with Section 624.401, Florida Statutes (F.S.).

### Dividends and Capital Contributions

The Company received \$3 million of contributed capital and surplus in 2013. No dividends were distributed during the period examined.

## **CORPORATE RECORDS**

We reviewed the minutes of the Company's shareholder and board of directors meetings held during the period examined. The Board's approval of Company transactions, including the authorization of its investments as required by Section 625.304, F.S., was recorded in the minutes of its meetings.

The minutes of the Company's board of directors meetings did not indicate whether the Company's appointed actuary had reported to the Board or Audit Committee on items within the scope of the actuarial opinion, as required by the NAIC annual statement instructions.

## MANAGEMENT AND CONTROL

The Company was wholly owned by Health First Holding Corp. (HFHC), a for-profit corporation. HFHC was a wholly owned subsidiary of Health First, Inc., a not-for-profit corporation the primary purpose of which was to direct the affairs of a multi-entity health care system. The Company was affiliated with various other entities through common ownership including Health First Health Plans, Inc. (HFHP), a Florida health maintenance organization and third party administrator. The Company's senior officers and directors were:

### Senior Officers

Name	Title
Steven P. Johnson, Ph.D.	Interim President, CEO & Interim Secretary
Joseph G. Felkner	Treasurer
David E. Mathias	Assistant Secretary

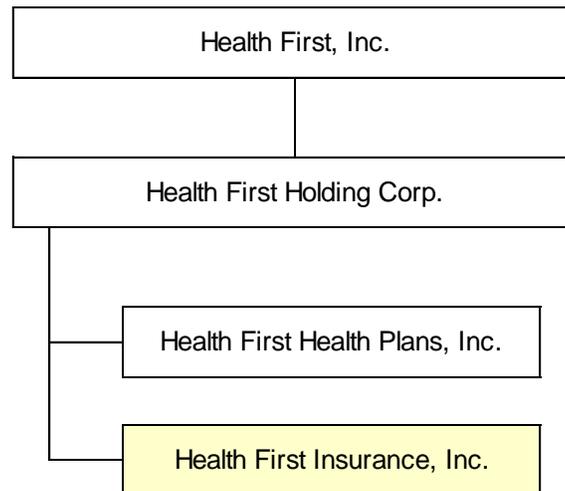
### Board of Directors

Name	Location
Joseph G. Felkner	Viera, Florida
Steven P. Johnson, Ph.D.	Satellite Beach, Florida
Kevin S. Pruett	Cocoa Beach, Florida
James C. Shaw	Melbourne, Florida

The Company was a member of an insurance holding company system. Its latest holding company registration statement was filed with the State of Florida as required by Section 628.801, F.S., and Rule 69O-143.046, Florida Administrative Code (F.A.C.), on February 27, 2014.

An abbreviated organizational chart reflecting a holding company system is shown below.

**Health First Insurance, Inc.  
Abbreviated Organizational Chart  
December 31, 2013**



Tax Allocation Agreement

The results of the Company's operations were included in the consolidated federal income tax returns of HFHC pursuant to a September 7, 2011 tax sharing agreement. The income tax liability of the consolidated group was allocated to members on a pro rata basis according to each member's separate tax return liability in an amount not to exceed the company's separate tax return liability.

Administrative and Financial Management Agreements

Health First, Inc. provided administrative, management and financial services to the Company pursuant to an agreement effective September 7, 2011, to include management, legal, human resources, information system support and financial services in return for \$75,165 in 2013.

HFHP provided administrative, customer service, medical and pharmaceutical management, underwriting, actuarial, claims and other services to the Company pursuant to a May 28, 2013 agreement in return for \$146,115 in 2013.

#### **FIDELITY BONDS AND OTHER INSURANCE**

The Company maintained fidelity bond coverage of \$1,250,000 with a deductible of \$50,000 which adequately provided for the suggested minimum amount of coverage for the Company as recommended by the NAIC.

#### **PENSION, STOCK OWNERSHIP AND INSURANCE PLANS**

The Company had no employees and did not directly provide employee benefits or sponsor retirement plans. Employees of HFHP performed functions on behalf of the Company. HFHP provided various benefits to eligible employees including health and dental insurance, educational assistance, paid leave and participation in a 401(k) retirement plan sponsored by Health First, Inc.

#### **TERRITORY AND PLAN OF OPERATION**

The Company operated solely in the State of Florida. It offered Medicare Supplement coverage and individual, small and large group preferred provider organization (PPO) plans within its service area of Indian River and Brevard Counties. The Medicare Supplement and PPO plans were underwritten by the Company and administered by its affiliate HFHP. The Company marketed its products primarily through licensed brokers and sales agents.

## **REINSURANCE**

The Company maintained specific excess of loss reinsurance coverage with Zurich American Insurance Company for its commercial individual PPO line of business. The policy covered 90% of the Company's eligible expenses in excess of \$225,000 per person per year up to \$2,000,000.

## **ACCOUNTS AND RECORDS**

The Office was not notified, as required by Rule 69O-137.002(14)(e), F.A.C., that the audit committee of Health First, Inc. served as the Company's audit committee.

## **STATUTORY DEPOSITS**

The Company maintained a cash deposit of \$100,000 with the Office, as required by Section 624.411, F.S.

**Health First Insurance, Inc.**  
**Admitted Assets, Liabilities, and Capital and Surplus**  
**December 31, 2013**

<b>Admitted Assets</b>	<b>As Reported</b>	<b>Examination Adjustments</b>	<b>Per Examination</b>
Cash, cash equivalents and short-term investments	\$ 5,307,853	\$ (147,980)	\$ 5,159,873
Uncollected premiums and agents' balances	104,479	(4,088)	100,391
Receivables from parent, subsidiaries and affiliates	2,100	-	2,100
<b>Total admitted assets</b>	<b>\$ 5,414,432</b>	<b>\$ (152,068)</b>	<b>\$ 5,262,364</b>

<b>Liabilities</b>			
Claims unpaid	\$ 356,912	\$ -	\$ 356,912
Unpaid claims adjustment expenses	10,642	-	10,642
Aggregate health policy reserves	261,980	-	261,980
Premiums received in advance	213,560	-	213,560
General expenses due or accrued	85,136	16,944	102,080
Amounts due to parent, subsidiaries and affiliates	201,978	-	201,978
<b>Total liabilities</b>	<b>1,130,208</b>	<b>16,944</b>	<b>1,147,152</b>

<b>Capital and Surplus</b>			
Common capital stock	10,000	-	10,000
Gross paid in and contributed surplus	5,990,000	-	5,990,000
Unassigned funds (deficit)	(1,715,776)	(169,012)	(1,884,788)
<b>Total capital and surplus</b>	<b>4,284,224</b>	<b>(169,012)</b>	<b>4,115,212</b>
<b>Total liabilities, capital and surplus</b>	<b>\$ 5,414,432</b>	<b>\$ (152,068)</b>	<b>\$ 5,262,364</b>

**Health First Insurance, Inc.**  
**Statement of Revenue and Expenses**  
**(As Reported By The Company)**  
**Year Ended December 31, 2013**

Net premium income	\$ 1,020,786
Aggregate write-ins for other non-health revenues	97
<hr/> Total revenues	<hr/> 1,020,883
Hospital and medical benefits	710,196
Other professional services	2,327
Emergency room and out-of-area	37,320
Prescription drugs	12,633
<hr/> Total hospital and medical	<hr/> 762,476
Claims adjustment expenses	28,057
General administrative expenses	1,183,764
Increase in reserves	261,980
<hr/> Total underwriting deductions	<hr/> 2,236,277
Net underwriting gain (loss)	(1,215,394)
Net investment gains (losses)	(14,866)
<hr/> Net income (loss)	<hr/> <hr/> \$ (1,230,260)

**Health First Insurance, Inc.**  
**Statement of Changes in Capital and Surplus**  
**Year Ended December 31, 2013**

Capital and surplus - December 31, 2012	\$ 2,519,767
Net income (loss)	(1,230,260)
Change in nonadmitted assets	(5,283)
Paid in surplus	3,000,000
	<hr/> 4,284,224
Examination adjustments	(169,012)
Capital and surplus - December 31, 2013	<hr/> <u>\$ 4,115,212</u>

**Health First Insurance, Inc.**  
**Comparative Analysis of Changes in Capital and Surplus**  
**December 31, 2013**

The following is a reconciliation of capital and surplus between that reported by the Company and as determined by the examination.

	<u>As Reported</u>	<u>Per Examination</u>	<u>Increase (Decrease) In Capital &amp; Surplus</u>	
<b>Capital and surplus, December 31, 2013 - per annual statement</b>				\$ 4,284,224
Cash, cash equivalents and short-term investments	\$ 5,307,853	\$ 5,159,873	\$ (147,980)	
Uncollected premiums and agents' balances	\$ 104,479	\$ 100,391	\$ (4,088)	
General expenses due or accrued	\$ 85,136	\$ 102,080	\$ (16,944)	
Net change in capital and surplus				<u>(169,012)</u>
<b>Capital and surplus, December 31, 2013 - per examination</b>				<u><u>\$ 4,115,212</u></u>

## COMMENTS ON FINANCIAL STATEMENTS

### Cash, Cash Equivalents and Short-Term Investments

The \$5,307,853 reported by the Company in its 2013 annual statement as 'cash, cash equivalents and short-term investments' has been reduced by \$147,980 to \$5,159,873. The Company reported \$136,428 which was held in the name of an affiliate and, therefore, not owned by the Company, and \$11,552 which was pledged as collateral. As a result, the claimed assets have been nonadmitted in accordance with Section 625.012, F.S., and Statement of Statutory Accounting Principles (SSAP) No. 4.

### Uncollected Premiums and Agents' Balances

The \$104,479 reported by the Company in its 2013 annual statement as 'uncollected premiums and agents' balances' has been reduced by \$4,088 to \$100,391. Because \$4,088 in uncollected premiums were over 90 days due, they have been nonadmitted in accordance with Section 625.012(5), F.S., and SSAP No. 6.

### General Expenses Due or Accrued

The \$85,136 reported by the Company in its 2013 annual statement as 'general expenses due or accrued' has been increased by \$16,944 to \$102,080. During the examination, examiners determined that the Company had understated an accrued expense by \$16,944 as of December 31, 2013.

## RECOMMENDATIONS

### Corporate Records

As reported on page 3, the minutes of the Company's board of directors meetings did not indicate whether the Company's appointed actuary had reported to the Board or Audit Committee on items within the scope of the actuarial opinion. **We recommend that the Company's appointed actuary report to the Board or Audit Committee on items within the scope of the actuarial opinion, as required by the NAIC annual statement instructions, and that the Board or Audit Committee acknowledge the reported items in the minutes of its meetings.**

### Audit Committee

As reported on page 7, the Office was not notified that the audit committee of Health First, Inc. served as the Company's audit committee, as required. **We recommend that the Company comply with Rule 69O-137.002(14)(e), F.A.C.**

### Accounting and Reporting Errors

As reported on page 12, the Company overstated the amounts of certain assets and understated the amount of a liability in its 2013 annual statement. **We recommend that, in future statements filed with the Office, the Company accurately report its assets and liabilities in accordance with Part I of Chapter 625, F.S., and the NAIC annual statement instructions.**

## CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of Health First Insurance, Inc. consistent with the insurance laws of the State of Florida.

At December 31, 2013, the Company's capital and surplus was \$4,115,212 and the Company was in compliance with the minimum capital and surplus requirement of Section 624.408, F.S.

In addition to the undersigned, the following individuals participated in the examination: Walter F. Banas, CIE, Financial Specialist; Kerry Krantz, Actuary; and Darlene L. Lenhart-Schaeffer, CFE, CISA, Financial Examiner/Analyst Supervisor.

Respectfully submitted,

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Scott R. Slaughter, CPA  
Financial/Examiner/Analyst  
Florida Office of Insurance Regulation